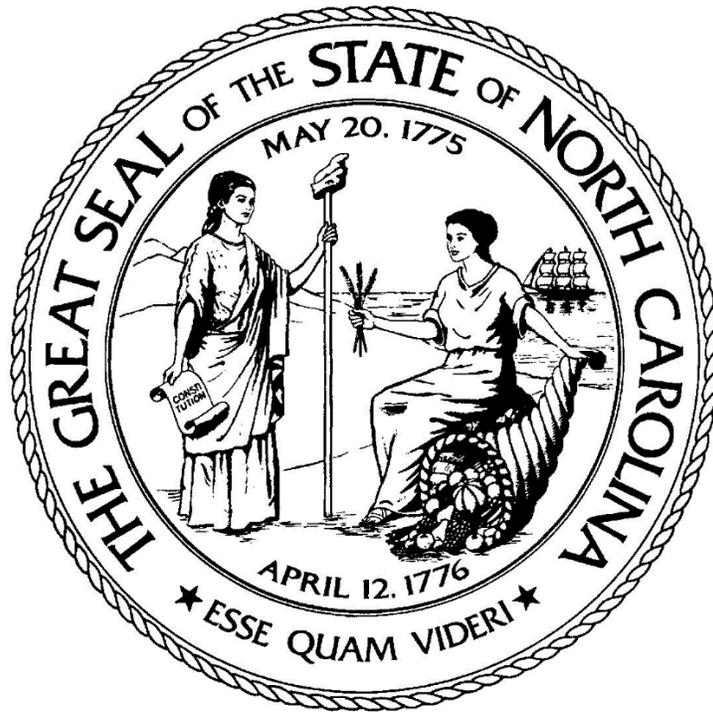


Instructions for Preparation of the 2019-21 Recommended State Budget



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September 2018

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1. EXECUTIVE SUMMARY

Overview of the Budget Process

The State of North Carolina appropriates operating and capital funds on a biennial, or two-year cycle. An approved budget includes annual amounts for each of the two fiscal years that make up the biennium. The General Assembly, convening in January 2019, will consider the Governor’s recommended budget as well as other changes presented for legislative review before passing a two-year budget to be certified by the Office of State Budget and Management (OSBM) in summer 2019. In accordance with the State Budget Act, the Governor’s Recommended Budget for the 2019-21 biennium will be finalized and presented to the General Assembly early in the legislative session.

The process for preparing the 2019-21 biennial budget recommendations is now underway. Agencies will work with OSBM staff to prepare Base Budgets and Change Budget requests for the upcoming biennium in a manner consistent with that prescribed in the State Budget Act. Agencies should plan to engage internally and with OSBM and Governor’s policy staff in a collaborative effort to complete the tasks laid out in the accompanying budget instructions.

Assembling Your Budget Development Team

For agencies, the process should include not only budget and financial staff but also program directors, CIOs, and other members of agency senior leadership. As part of the [Common Sense Government initiative](#), OSBM has increased focus on evidence-based budgeting, data-driven decisions, and strategic management of the state’s resources and [has realigned staff responsibilities to better assist agencies with these goals](#). Analysts will now be able to offer more technical assistance to agencies in developing the Base Budget and Change Budget requests, and more time has been provided for each component of the budget development process to ensure a recommended budget that accurately reflects agency operations and critical future needs. OSBM Budget Execution Analysts will work with agencies on Base Budget development, and OSBM Budget Development Analysts will work with agencies on Change Budget requests.

Timeliness and deadlines are critical to budget development. Deadlines are established to ensure the Governor has adequate time to review information and finalize a recommended budget as required by the State Budget Act. Agencies need to focus on budget planning and policy decisions early to ensure all deadlines are met. Following are key dates and deliverables in the 2019-21 budget development process. A more detailed timeline can be found on the [OSBM website](#).

FY 2019 - 21 Budget Development Key Dates	
Date	Action
September 10, 2018	FY 2019 - 21 Budget Instructions Issued
September 20, 2018	Budget Instructions Training, 2pm, Albemarle Building, Rm #245, Raleigh, NC
October 24, 2018	All Base Budget entries with attachments and budget restructuring plans due to OSBM
November 1, 2018	Strategic Plan due to OSBM
November 30, 2018	All Change Budget requests with backup documentation due to OSBM
January, 2019	Agency meetings with Budget Director
March, 2019	Governor's Recommended Budget released

Major Policies and Requirements for Development of the 2019-21 Budget

The budget development process is an opportunity to

1. realign Base Budgets to maximize efficiency and transparency, and to
2. propose Change Budget requests to modify or eliminate ineffective programs, increase funding to better deliver existing services and meet operational needs, and to expand programs or services to address critical needs and functions of state government.

The Base Budget provides the funding necessary to continue the existing, authorized level of services for the next biennium. The Base Budget development process gives agencies the opportunity to adjust budgets to better reflect operations, align budget authority with actual expenditures and revenue projections, and establish a realistic spending plan for the upcoming biennium. OSBM Budget Execution Analysts will work with agencies to prepare Base Budgets.

The Change Budget consists of all proposals for expansion or reduction from the Base Budget. This includes requests for meeting critical needs, expanding or creating programs, repurposing funding for new priorities, and addressing issues that cannot be accommodated in the Base Budget realignment process. For the 2019-21 biennium, Change Budget proposals should focus on addressing the following priorities identified by Governor Cooper:

1. Positioning North Carolina to create new jobs and grow middle class paychecks;
2. Making North Carolina a top ten educated state;
3. Promoting healthier and safer communities; and
4. Ensuring an effective, accountable, well-run state government.

Outlook for the 2019-21 Biennium

Although OSBM anticipates continued economic growth in the current fiscal year and into the next biennium, further reductions in individual and corporate income taxes taking effect in 2019 will limit revenue growth. Due to this expected moderation in revenues coupled with fiscal pressures stemming from statutory requirements and enrollment growth in key programs, agencies should limit total General Fund expansion requests to no more than two percent (2%) of their FY 2018-19 BD 307 certified recurring appropriation. Agencies should:

- Prioritize requests to focus on delivering critical services;
- Identify opportunities for efficiencies and savings to enable reallocation of resources to high priority needs; and,
- Ensure expansion requests have a clear link to the agency's strategic plan.

Although reduction options are not required, agencies are encouraged to look for opportunities to improve program delivery and agency operational efficiency. Expansion requests should include thorough and well-documented narrative explanations of the problem or opportunity addressed, the details of the proposed solution, the expected outcomes and impacts and should be clearly linked to agency strategic plans. OSBM Budget Development Analysts will work with agencies to assist and advise in the preparation of budget requests to present and make recommendations to the Governor.

Increased Emphasis on Strategic Planning

OSBM is continuing efforts to integrate and utilize strategic planning information in the budget development process. For the 2019-21 biennium, all agencies are required to submit select strategic

planning information in conjunction with their budget requests. This information will be used to review spending requests during the budget development process in conjunction with the Governor's recommended budget. Budget expansion requests must clearly support goals included in the agency's strategic plan to be considered in the Governor's 2019-21 recommended budget. Please see [Agency Strategic Planning Guidelines](#) for additional information.

Instructions

The following instructions and related job aids and attachments provide detailed guidelines for preparing base, expansion, reduction, and capital improvement budget requests with accompanying deadlines for completing key steps. This instruction document is much shorter than it has been in the past, but within the following pages you will see hyperlinks that will take you to more detailed instructions (job aids) and relevant attachments and reference materials. Also, there is a new [Budget Instructions section on the OSBM website](#) that organizes documents by Base Budget, Change Budget and Capital Budget and has buttons directly to job aids, attachments and reference materials; along with a calendar detailing the key dates that items are due to OSBM.

Budget Kick-off on September 20th

OSBM will host a budget kick-off for agency staff on Thursday, September 20th beginning at 2:00 in the Albemarle Building. The kick-off will include a review of the 2019-21 budget instructions, focused on key changes to the process and timeline, and an opportunity to address your questions. Key staff members who will be involved in the biennial budget development process for your agency are encouraged to attend. Additional details regarding this kick-off, including an RSVP, will be sent to agency CFOs shortly following the release of these instructions.

2. 2019-21 Base Budget Instructions

The Base Budget provides the funding necessary to continue the existing, authorized level of services for the 2019-21 biennium. The Base Budget is an agency's opportunity to adjust budgets to better reflect actual expenditures and revenue collections and provide a more accurate spending plan for the biennium. This should promote effective decision making, increase transparency, and reduce the number of budget revisions needed throughout the fiscal year.

Preparing the Base Budget is an *interactive process as agencies work closely with OSBM to make appropriate adjustments to the Base Budget*. The Base Budget process is required for governmental and proprietary budget codes as defined in G.S. 143C-1-3 that OSBM determines to be included in the Governor's Recommended Budget. [Base Budget Development Job Aids and Reference Materials can be found on the OSBM website.](#)

Generating the Base Budget Document

The process to develop the 2019-21 Base Budget begins by generating the Base Budget Document (Worksheet I) from the self-service budget development reports within IBIS. An overview of useful Base Budget reports, including a description of the Base Budget Document, is located [here](#). The Base Budget Document uses the FY 2018-19 authorized budget as the starting point for the 2019-21 Base Budget and provides previous fiscal year actuals as well as the FY 2018-19 certified and authorized budgets.

Once the Base Budget Document has been generated in IBIS, recurring budget revisions approved by OSBM will be pulled in manually to update the Base Budget Document. This ensures that an agency's FY 2018-19 authorized budget in the Base Budget Document is current.

Any increases or decreases that are not allowed through budget revisions but are allowed through the Base Budget development process may be requested through a Base Budget entry in IBIS. Any changes approved by OSBM using a Base Budget entry in IBIS will reflect in the Increase/Decrease column on the Base Budget Document. The FY 2018-19 authorized budget added together with the Increase/Decrease column becomes the 2019-21 Base Budget. A useful reference document that describes each column in the Base Budget Document is located [here](#).

The 2019-21 Base Budget can be changed in four ways through the Base Budget development process.

Adjustments Allowed in the Base Budget

1. **Adjustments to the FY 2018-19 Authorized Budget:**

Agencies should examine FY 2018-19 authorized budgets for opportunities to realign budgets from over-funded to under-funded line items and to budget receipts at accurate levels. Agencies should also reconcile budgeted salaries and benefits as well as Salary Control in IBIS as part of this review. OSBM will provide tools to assist in comparing budgeted salaries and BEACON salary information. Realignments within the same fund, adjusting receipts levels, salary, benefit, and Salary Control reconciliations can be accomplished through budget revisions that are pulled into the Base Budget Document.

[Job Aid on Allowable Changes to Authorized Budget](#) provides more detailed instructions.

2. **Allowable Base Budget Increases and Decreases:** Base Budget increases and decreases do not change the authorized budget but are shown separately in the Base Budget Document and may increase or decrease total spending for a purpose or program as authorized by G.S. 143C-1-1(d)(1c), including:
 - a. Realignments to accurately reflect receipts, expenditures, and fund balances across purposes or programs;¹
 - b. Increases or decreases for programs and positions that were partially funded in the previous fiscal year;
 - c. Adjustments for prior year nonrecurring increases or decreases;
 - d. Changes for federal payroll tax changes and existing lease rate increases;
 - e. Reconciliation of intra-governmental and inter-governmental transfers; and
 - f. Adjustments for legislative and statutory requirements.

In most cases, these adjustments should be made in the Base Budget. However, depending on the extent to which a proposed change affects the scope of a program, OSBM may require these adjustments to be submitted as Change Budget adjustments.

[Job Aid on Allowable Increases and Decreases to the Authorized Budget](#) provides more details on budget adjustments allowed during the Base Budget process.

3. **Budget Restructuring:** Through a Base Budget entry in IBIS, agencies also have the opportunity to restructure budgets, i.e. to make changes to the budget fund structure. For example, if a program is comprised of multiple funds, agencies can combine those into one fund through the Base Budget process. Combining funds may increase operational flexibility and reduce the number of budget revisions needed throughout the year. Budget structure changes should not necessarily be the result of, or require, a reorganization within an agency; restructuring the budget may simply be an opportunity to operate more efficiently. However, if a budget restructuring involves a reorganization, a report must be made to the Joint Legislative Committee on Governmental Operations and Fiscal Research as required by GS 143B-10.

Agencies interested in restructuring their budgets should complete the [budget restructuring attachment](#). Restructuring plans should not be entered into IBIS until an agency has consulted its OSBM analyst and all other Base Budget entries have been approved.

[IBIS Worksheet I Training Guide](#) includes step-by-step instructions on how to enter a Base Budget entry in IBIS for increase/decrease items and/or restructuring.

4. **Fund Review and Updates to Fund Purpose Statements:** OSBM will send agencies a list of their funds to review and determine whether the fund needs to be printed in the Base Budget publication or not. For those funds included in the publication, agencies then need to update the Fund purpose statements for the fund, because these will be printed in the Base Budget publication. Fund purpose statements explain the programs, expenditures, and revenues that are managed within each specific fund. Fund purpose statements are a key component of the Base Budget document allowing decision makers and the public to understand how programs are funded. Fund purpose statements should be updated in IBIS by September 24, 2018.

¹ See [G.S. 143C-3-5\(b\)\(2\)\(c\)](#)

[Job Aid on Updating Fund Purpose Statements](#)

In addition, to support OSBM's review of the base budget, agencies may be asked to submit supplemental information on relevant service and activity data, such as data on populations served and at what cost for the funding level in the base budget.

All Base Budget adjustments requests and associated documentation are due to OSBM by **October 24, 2018**. Agencies are strongly encouraged to attach backup documents to the Base Budget Entries in IBIS. If necessary, agencies may submit backup attachments to your OSBM Budget Execution Analyst by email.

3. 2019-21 Change Budget Instructions

The Change Budget consists of all proposals for expansion or reduction from the Base Budget. This includes requests for meeting critical needs, expanding or creating programs, and addressing issues that cannot be accommodated in the Base Budget realignment process. For the 2019-21 biennium, Change Budget proposals should focus on addressing the following priorities identified by Governor Cooper:

1. Positioning North Carolina to create new jobs and grow middle class paychecks;
2. Making North Carolina a top ten educated state;
3. Promoting healthier and safer communities; and
4. Ensuring an effective, accountable, well-run state government.

Given current expectations for modest revenue growth in the 2019-21 biennium, agencies should limit total General Fund expansion requests to no more than two percent (2%) of their FY 2018-19 BD 307 certified recurring appropriation (excluding changes in enrollment for certain programs identified below). Expansion requests should focus on delivering critical services, filling budget gaps and unmet needs, and addressing agency and administration strategic priorities. Although reduction options are not required, agencies are encouraged to look for opportunities to improve program delivery and agency operational efficiency.

Change Budget requests may include the following:

- Funding adjustments due to changes in enrollment or population served in public schools, community colleges, the University of North Carolina system, prisons, and North Carolina's Medicaid and Health Choice programs, State and County Special Assistance program, and Foster Care and Adoption Assistance program (these adjustments are not subject to 2% limitation).
- Additional funding for new programs, expanding or improving existing programs, and fulfilling mandated functions.
- Departmental proposals to redirect funds from inefficient or ineffective programs.
- One-time major equipment purchases.
- Continued phase-in of new programs initiated in a previous biennium.
- Adjustments to address inflation and related cost increases
- Information technology projects.
- Operating Building Reserves.
- Funds to replace lost federal funds.
- Changes to compensation and benefits to attract and retain talent.
- Other increases and adjustments.

Change Budget requests will be submitted via the Expansion Request and Reduction Proposal Worksheet II forms in IBIS. In addition to General Fund appropriation expansion requests, agencies should also submit Worksheet IIs for expansion requests supported from 100 percent non-General Fund sources (federal funds or other receipts) or if an expansion item is supported from cash balances in non-reverting funds. These items do not count toward the 2% cap on General Fund expansion requests.

OSBM will evaluate Change Budget requests based on the strength of the business case and supporting data and evidence provided by the agency. Agencies should focus their efforts on ensuring the narrative components of the Worksheet II clearly and succinctly articulate the problem being addressed, the

intended outcome, and the expected impact of the request. Requests for new or expanded programs or services must include evidence and research supporting the program's effect on desired outcomes. For certain requests, such as addressing inflation and related increases in operational costs, less detail on these components is required. However, it is imperative that agencies complete all components of the form and provide supporting data to present a compelling justification for the request where appropriate.

Information Technology projects must be included in the agency's IT plan if required in order to be considered for inclusion in the Governor's recommended budget. A copy of agency IT plans for the upcoming biennium must be submitted to OSBM upon completion. Additionally, IT requests should be submitted via a Worksheet II in IBIS and the [Enterprise Project Management Office's Touchdown System](#). IT requests must conform to the process and requirements found in the [IT Job Aid](#).

OSBM is continuing efforts to integrate and utilize strategic planning information in the budget development process. For the 2019-21 biennium, all agencies are required to submit select strategic planning information in conjunction with their budget requests. This information will be used to review spending requests during the budget development process in conjunction with the Governor's recommended budget. Budget expansion requests must clearly support goals included in the agency's strategic plan to be considered in the Governor's 2019-21 recommended budget. Please see [Agency Strategic Planning Guidelines](#) for additional information.

OSBM will be conducting executive meetings with all agencies beginning in October to facilitate biennial budget development. Agencies should be prepared to begin a discussion of top budget priorities, changes to investments in those priorities, and associated goals, success measures, estimated costs, and proposals to pay for the identified priorities. In addition, please be prepared to discuss top structural budget needs and identified efficiencies to improve your agency. OSBM analysts will also be available for consultation and assistance throughout the process of developing Change Budget proposals.

All expansion and reduction proposals should be reflected in Worksheet IIs developed in IBIS and are due to OSBM on or before November 30, 2018. Additional information on change budget requests and instructions for completing Worksheet IIs can be found in the Job Aids for [Change Budget Expansion Requests](#), [Change Budget Reduction Proposals](#), and [Information Technology](#).

4. Capital Improvement Plan and Budget

Capital projects, such as land acquisitions, new construction, rehabilitation of existing facilities, and repairs and renovations, are submitted as part of the six-year Capital Improvement Plan and Capital Improvement Budget. The Capital Improvement Budget are items required for agencies to continue to operate and deliver current and new services in the next six years.

The Capital Improvement Plan consists of two components. The first is the statutorily required needs estimate of capital projects required by the State Agencies to operate and provide current and expected services over the next six years. The second component takes the six-year needs estimate and programs those projects out over a six-year schedule that may reasonably be completed by each agency, assuming funds are available.

Once both items are completed and analyzed, the State can assess the deficiency between the needs of the agencies, deliverable projects, and available funds. The State can then take steps to address deficiencies by exploring other alternatives, such as leased space.

Capital Budget Process

The Worksheet III process is used to develop the 2019-25 Capital Improvement Plan, with the first two years of the plan guiding the 2019-25 Governor's Recommended Capital Improvement Budget. Both the Capital Improvement Plan and the Capital Improvement Budget are submitted to the General Assembly at the beginning of the 2019 session in January. One-time major equipment purchases must be requested in the operating expansion budget (for more information, reference the [Expansion Request Job Aid](#)).

The Capital Improvement (Worksheet III) form in IBIS is designed to assist OSBM with preparing the six-year Capital Improvement Plan in accordance with [G.S. 143C-8-5](#). Refer to the [New Capital Projects Job Aid](#), [Repairs and Renovations Job Aid](#) and the Worksheet III User Guides ([Capital](#)) and ([R&R](#)) for further assistance. OSBM will conduct meetings with each agency to gain a better understanding of capital requests.

Worksheet III forms and all required attachments must be submitted to your OSBM analyst on or before **November 30, 2018.**